



Orangerooof Canada Limited
Annual Report 1972

Orangerooof Canada Limited

CORPORATE DIRECTORY

Officers:

J. Howard Hawke, Chairman of the Board
John J. Courtemanche, President
Russell A. Rule, Vice-President
Alan W. Alderson, Treasurer
Harold J. Murphy, Q.C., Secretary

Directors:

John J. Courtemanche*
Harold E. Crate, F.C.A.*
Frank J. Crothers
George W. Crothers
Joseph P. Crothers*
J. Howard Hawke*
Walter A. Keyser
Harold J. Murphy, Q.C.
W. J. R. Paton
Russell A. Rule
Douglas G. Sinclair

*Executive Committee

Solicitors:

Garvey, Ferriss

Auditors:

Thorne Gunn & Co.

Transfer Agent and Registrar:

Canada Permanent Trust Company
Vancouver, Calgary, Toronto, Montreal, Halifax

Executive Offices:

Howard Johnson's Airport Hotel
P.O. Box 605, Rexdale, Ontario M9W 5L6
Telephone (416) 677-3655

Consultant:

Raymond W. Smith, Vice-President,
International Development,
Howard Johnson Company, Boston

The Annual Meeting of Shareholders will be held Wednesday, June 21, 1973 at 10 a.m. in Howard Johnson's Airport Hotel, 801 Dixon Road, Toronto.

REPORT OF THE PRESIDENT

On behalf of your Board of Directors, I am pleased to report the results of Orangerooft Canada Limited for the year ended December 31st, 1972.

Sales volume for the year in our Howard Johnson's restaurant division was on target with results of the restaurants adjoining our two hotels being especially satisfying.

Occupancy rates in both our Toronto and London hotels were above first year projections, but the severe competition in the Toronto Airport area kept room rates below satisfactory levels. The situation is improving, and we expect optimum results will be reached in late 1974.

While the ice cream plant in Welland is not yet operating at break-even levels, shipments to the Quebec Howard Johnson's restaurants, new restaurants coming into operation in 1973, and the manufacture of additional food products should improve the profitability of this operation by late 1973 and beyond.

The starting-up and breaking-in period occasioned by the opening of five restaurants, two pubs, two lounges and two hotels late in 1971, was most difficult. Adequate staffing and proper operating procedures were established in mid-1972 and operating costs were subsequently brought into line. By the end of 1972 all but two of these entities were at planned profit levels after controllable expenses, and these two are currently being brought into line.

We will be opening two Motor Lodges, each with a Howard Johnson's Restaurant and Pub attached – one in St. Catharines and the other at Markham Road and Hwy. 401 in eastern Metropolitan Toronto. The effects of the elevator and telephone equipment strikes have delayed our scheduled openings, but both complexes will be able to provide limited service to this summer's tourist trade.

We expect to commence construction on free standing restaurants in Barrie and Stoney Creek, Ontario, in June 1973. Both these facilities should be operational by late fall. While they will not contribute to 1973 results, they should be profitable in 1974.

We have signed an agreement with a licensee to open a new Motor Lodge/Restaurant/Pub complex in Whitby, Ontario, at Hwy. 401 and Thicksen Road, and ground should be broken at this location in mid-summer.

In conjunction with a licensee in Oshawa, Ontario, a 55-seat restaurant and ice cream parlour concept has been opened which could offer exceptional opportunities for expansion. A decision on the potential for implementing similar operations in other communities will be made in late 1973.

Now that we are confident operating efficiency has been established, major financing for the acceleration of our building program is being negotiated.

May we express our thanks to the able and dedicated people who have contributed to the Company's progress and to all our shareholders, licensed operators and customers for their continuing loyalty and enthusiasm.

John J. Courtemanche
President

May 25, 1973.

Orangeroot Canada Limited

(Incorporated under the laws of Canada)
and subsidiary companies

ASSETS

	<u>1972</u>	<u>1971</u>
CURRENT ASSETS		
Cash and bank deposit receipts	\$ —	\$ 1,313,000
Accounts receivable	296,000	232,000
Costs of land, buildings and equipment recoverable under sale and lease-back agreements (note 2)	1,748,000	437,000
Current portion of mortgage receivable	88,000	—
Inventories, at the lower of cost and net realizable value	126,000	116,000
Deposits and prepaid expenses	32,000	45,000
	<u>2,290,000</u>	<u>2,143,000</u>
 MORTGAGES RECEIVABLE (note 3)	 445,000	 —
 FIXED ASSETS (note 4)		
Land, buildings, equipment and leasehold improvements, at cost ..	9,002,000	10,765,000
Less accumulated depreciation	578,000	173,000
	<u>8,424,000</u>	<u>10,592,000</u>
 LAND, CARRYING AND OTHER CHARGES APPLICABLE TO FUTURE DEVELOPMENT SITES, at cost	 47,000	 706,000
 OTHER ASSETS, at cost less amortization		
Licences (note 5)	452,000	478,000
Deferred expenses (note 6)	546,000	673,000
	<u>998,000</u>	<u>1,151,000</u>
	<u>\$12,204,000</u>	<u>\$14,592,000</u>

Approved by the Board

J. H. Hawke, Director

J. J. Courtemanche, Director

CONSOLIDATED BALANCE SHEET – DECEMBER 31, 1972

(with comparative figures at December 31, 1971)

LIABILITIES

	<u>1972</u>	<u>1971</u>
CURRENT LIABILITIES		
Bank advances (note 7)	\$ 623,000	\$ 250,000
Accounts payable and accrued liabilities	815,000	1,070,000
Holdbacks payable on construction contracts	117,000	337,000
Principal due within one year on long-term liabilities	172,000	178,000
	<u>1,727,000</u>	<u>1,835,000</u>
LONG-TERM LIABILITIES (note 8)	<u>7,879,000</u>	<u>9,363,000</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 9)		
Authorized		
1,400,000 Class A common shares without par value		
3,500,000 Class B common shares without par value		
Issued		
1,400,000 Class A common shares	4,570,000	4,570,000
800,000 Class B common shares		
DEFICIT	1,972,000	1,176,000
	<u>2,598,000</u>	<u>3,394,000</u>
	<u>\$12,204,000</u>	<u>\$14,592,000</u>

Long-term leases (note 10)

Orangeroof Canada Limited

and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1972

(with comparative figures for 1971)

	<u>1972</u>	<u>1971</u>
Revenue		
Sales	\$6,338,000	\$1,885,000
Interest	46,000	67,000
Royalties and licence fees	189,000	71,000
	<u>6,573,000</u>	<u>2,023,000</u>
Costs and expenses before the undernoted	5,877,000	2,198,000
Amortization of deferred expenses	126,000	47,000
Amortization of licences	26,000	26,000
Royalties and licence fees	235,000	105,000
Depreciation	412,000	157,000
Interest on long-term liabilities	693,000	59,000
	<u>7,369,000</u>	<u>2,592,000</u>
Loss for the year	<u>\$ 796,000</u>	<u>\$ 569,000</u>
Loss per class A and B common shares	<u>36¢</u>	<u>26¢</u>

CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED DECEMBER 31, 1972

(with comparative figures for 1971)

	<u>1972</u>	<u>1971</u>
Deficit at beginning of year	\$1,176,000	\$ 607,000
Loss for the year	796,000	569,000
Deficit at end of year	<u>\$1,972,000</u>	<u>\$1,176,000</u>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1972
(with comparative figures for 1971)

	<u>1972</u>	<u>1971</u>
Source of funds		
Sale of fixed assets	\$2,348,000	\$ 70,000
Issue of long-term liabilities	—	7,130,000
Costs of land, buildings and equipment recoverable under sale and lease-back agreements	659,000	—
Decrease in non-current portion of mortgages receivable	155,000	—
Other	1,000	—
	<u>3,163,000</u>	<u>7,200,000</u>
Application of funds		
Loss for the year	796,000	569,000
Items not involving current funds		
Depreciation	(412,000)	(157,000)
Amortization of deferred expenses	(126,000)	(47,000)
Amortization of licences	(26,000)	(26,000)
	<u>232,000</u>	<u>339,000</u>
Mortgages receivable	600,000	—
Additions to fixed assets	592,000	8,553,000
Land, carrying and other charges applicable to future development sites	—	119,000
Deferred expenses	—	633,000
Decrease in non-current portion of long-term liabilities	1,484,000	190,000
	<u>2,908,000</u>	<u>9,834,000</u>
Increase (decrease) in working capital	255,000	(2,634,000)
Working capital at beginning of year	<u>308,000</u>	<u>2,942,000</u>
Working capital at end of year	<u>\$ 563,000</u>	<u>\$ 308,000</u>

Orangerooof Canada Limited

and subsidiary companies

AUDITORS' REPORT

To the Shareholders of
Orangerooof Canada Limited

We have examined the consolidated balance sheet of Orangerooof Canada Limited and subsidiary companies as at December 31, 1972 and the consolidated statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 27, 1973

THORNE GUNN & CO.
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1972

1. BASIS OF CONSOLIDATION

The consolidated financial statements for 1972 and 1971 include the accounts of the wholly-owned subsidiary companies, Orange Roof Enterprises Limited and O. R. Restaurants Limited. The latter company was incorporated on May 28, 1971.

2. COSTS OF LAND, BUILDINGS AND EQUIPMENT RECOVERABLE UNDER SALE AND LEASE-BACK AGREEMENTS

During 1972 the company agreed to sell on completion and lease-back certain land and buildings under construction which are expected to be completed before December 31, 1973. The costs to December 31, 1972 of \$1,748,000 have been included in current assets.

3. MORTGAGES RECEIVABLE

9% due May 15, 1975	\$285,000
9.5% due June 1, 1982	248,000
	<u>533,000</u>
Less principal included in current assets	88,000
	<u>\$445,000</u>

4. FIXED ASSETS

	1972			1971
	Cost	Accumulated depreciation	Net	Net
Land	\$ —	\$ —	\$ —	\$ 182,000
Buildings	6,014,000	215,000	5,799,000	8,075,000
Furniture and equipment	2,170,000	288,000	1,882,000	1,578,000
Leasehold improvements	632,000	75,000	557,000	598,000
Cutlery, china, linens, etc.	186,000	—	186,000	159,000
	<u>\$9,002,000</u>	<u>\$578,000</u>	<u>\$8,424,000</u>	<u>\$10,592,000</u>

For accounting purposes, depreciation is computed annually on a straight line basis as follows:

Buildings	2½ %
Furniture and equipment	10%
Leasehold improvements	Over the term of the lease
Cutlery, china, linens, etc.	The company capitalizes a base stock at each location and expenses subsequent replacements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Furniture and equipment at a cost of \$437,000 which the company sold and leased back, with a purchase option in a nominal amount at the end of the lease, has been accounted for as purchased equipment with a corresponding long-term liability (note 8).

5. LICENCES

	1972	1971
Master licence	\$227,000	\$240,000
Ice cream licence	225,000	238,000
	<u>\$452,000</u>	<u>\$478,000</u>

Under the master licence the company has the exclusive right to operate and license others to operate Howard Johnson's lodges, restaurants and Red Coach Grills in Canada. The ice cream licence grants the company the exclusive right to manufacture and sell Howard Johnson's ice cream in Canada.

The licences expire on December 31, 1989, but provide for two additional ten year renewal periods on payment of stipulated renewal fees. Both licences provide for percentage royalties with the master licence having a minimum royalty of \$75,000 in each of the remaining years of the initial term. The company is obligated to ensure that no less than 40 Howard Johnson's combination restaurants and motor lodges are operating by December 31, 1989 and that 9 are operating by December 31, 1973.

The cost of both licences is being amortized over the period ending December 31, 1989.

6. DEFERRED EXPENSES

	1972		1971
	Expenses	Amortization	Net
Deferred opening expenses	\$511,000	\$139,000	\$372,000
Deferred borrowing expenses	208,000	34,000	174,000
	<u>\$719,000</u>	<u>\$173,000</u>	<u>\$546,000</u>
			<u>\$673,000</u>

It is the company's practice to defer opening and borrowing expenses. The opening expenses are to be amortized over the first sixty months commencing with the month following the opening of each lodge or restaurant, and the borrowing expenses over the term of the respective borrowing.

7. BANK ADVANCES

Bank advances are secured by land and buildings subject to sale and lease-back agreements (note 2) and then a first charge on the proceeds of the sales when they occur.

8. LONG-TERM LIABILITIES

	1972	1971
Orangerooof Canada Limited		
9½ % Convertible sinking fund debentures Series A, maturing 1985	\$3,000,000	\$3,000,000
7% First mortgage, maturing 1979	—	140,000
9% Second mortgage, maturing 1972	—	65,000
10½ % Second mortgage, maturing 1974	1,500,000	1,500,000
Term bank loans repayable 1974 or earlier without notice or bonus, interest 2½ % over prime, secured by land and buildings	2,500,000	4,000,000
Due to Howard Johnson Company, payable \$51,000 annually 1973 to 1975	155,000	206,000
Principal amount of capitalized lease (note 4)	327,000	—
O. R. Restaurants Limited		
10¾ % First mortgage bonds, Series A, maturing 1981	200,000	220,000
11% First mortgage bonds, Series B, maturing 1981	369,000	410,000
	<u>8,051,000</u>	<u>9,541,000</u>
Less principal included in current liabilities	172,000	178,000
	<u>\$7,879,000</u>	<u>\$9,363,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The 9½% convertible sinking fund debentures series A, which are secured by a first floating charge on all the undertakings of the company call for annual sinking fund instalments of \$300,000 to commence in 1976, and can be redeemed otherwise than out of sinking fund monies at decreasing premiums commencing in 1977. The debentures are convertible into Class B common shares of the company at \$6.00 per share prior to 1981 and thereafter at \$7.50 per share to maturity (note 9).

Under the terms of the Trust Indenture securing the series A debentures, the company has agreed not to pay dividends on its common shares if the retained earnings are less than \$1,000,000 or if more than 50% of the series A debentures are outstanding.

9. CAPITAL STOCK

The Class A and Class B common shares have the following rights:

- (a) The Class A shares are entitled to 10 votes per share; the Class B shares are entitled to 1 vote per share.
- (b) Class A shares may be converted into Class B shares at any time on the basis of one Class B share for each Class A share. 1,400,000 Class B shares are reserved for issuance upon the conversion of Class A shares. If 90% of the Class A shares are converted into Class B shares, then at the company's option all the remaining Class A shares may, at any time and from time to time, be converted into Class B shares.
- (c) In all other respects, the Class A and Class B shares have equal rights.

500,000 Class B common shares have been reserved for issuance upon conversion of the \$3,000,000 Series A debenture.

10. LONG-TERM LEASES

The company has entered into long-term leases on land and buildings for periods varying from eight to thirty-eight years. From the balance sheet date these leases provide for minimum annual rentals of approximately \$529,000 and aggregate minimum rentals over the remaining terms of the leases of approximately \$11,300,000.

The leases contain options to renew.

11. INCOME TAXES

The company is in the process of filing amended income tax returns for the years ended December 31, 1969, 1970 and 1971. Based on these amended returns, losses carried forward and the excess of undepreciated capital cost over net book value of depreciable fixed assets, the tax effect of which has not been recorded in the accounts, are approximately as follows:

Losses carried forward on a tax filing basis, deductible in determining income taxes up to:

December 31, 1974	\$ 300,000
December 31, 1975	500,000
December 31, 1976	550,000
	1,350,000

Excess of undepreciated capital cost over net book value of depreciable fixed assets at December 31, 1972

200,000
\$1,550,000

12. OTHER STATUTORY INFORMATION

	1972	1971
Number of directors (including retired directors)	13	13
Aggregate remuneration of directors as directors	\$13,000	\$ 19,000
Number of officers (including retired officers)	7	5
Aggregate remuneration of officers as officers	\$70,000	\$106,000
Number of officers who were also directors	6	3

